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C O N F I D E N T I A L SECTION 01 OF 02 BAKU 000792

SIPDIS

STATE FOR EEB/ESC/TFS

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TAGS: [AJ](#) [MOPS](#) [PGOV](#) [PREL](#)

SUBJECT: AZERBAIJAN:IRANIAN BANK MELLI A SMALL,ACCOUNTABLE  
ACTOR

REF: NONE

Classified By: Acting DCM Robert Gaverick

11. (C) SUMMARY: On August 14, National Bank of Azerbaijan (NBA) officials Rufat Aslanli, Management Board Deputy Governor, and Futulla Alakbarov, Credit Deputy Director, told polecon officer Iran's Bank Melli, represented in Baku by one branch, is an accountable, transparent, and cooperative institution that is closely monitored by NBA pursuant to United Nations Security Council Resolution 1803. Aslanli said the only problem with Melli is its failure to adopt modern practices to increase its wealth and competitiveness in Azerbaijan. Alsanli and Alakbarov concluded the meeting by stating Iran is not a threat to Azerbaijan,s banking sector, adding the GOAJ,s 'progressive banking reform program' has gone a long way toward eliminating any possible risk Bank Melli or Iran, in general, could introduce within the financial system. Embassy observers remain skeptical, as Iranian financial activity in Azerbaijan has incresed in recent years and the GOAJ's bank reform project is still very much a work-in-progress. (NOTE: Bank Melli, through its branch in Baku, is the only Iranian bank operating in Azerbaijan). END SUMMARY

A respectable institution  
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12. (C) Aslanli and Alakbarov said Bank Melli is in good-standing with the Government of Azerbaijan and described the institution as cooperative and acting within framework of Azerbaijan,s banking laws and regulations. Aslanli reported NBA,s relationship with Bank Melli is long standing, noting Iran was among the only governments willing to risk opening a bank in 1993 when the Azerbaijan economy was in tatters. Aslanli assured polecon officer that, despite Melli,s solid reputation, NBA abides by UNSCR 1803 which calls on governments to closely monitor Iranian-banks, in particular Bank Melli, that operate in their jurisdictions. Aslanli said at this time there is no discussion within the GOAJ of closing Melli nor has Iran submitted any requests to open additional Melli branches or other Iranian banks in Azerbaijan.

Limited, simple operations  
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13. (C) Alakbarov reported the Melli branch in Baku is staffed by 25 employees who offer a range of limited, simple services to commercial and private interests. Melli,s total asset portfolio is worth between 50-60 million USD, while Azerbaijan's overall banking industry is currently assessed at about 7.5 billion USD. Alakbarov said with current high rate of returns on equity and assets in Azerbaijan, Melli,s average interest margin (difference between cost of money and

loan rates) is estimated at eight percentage points. Aslanli said Melli focuses on traditional, non-complex services such as private vehicle loans. This loan program comprises about 25 percent of its overall portfolio. Melli vehicle loans are offered at 18 percent interest rates. He also said Melli is active in interbank deposit activities.

¶4. (C) When asked if Iranians living and working in Azerbaijan use Melli, he said no, adding Iranian small to medium size businessmen deal largely in cash. The larger businessmen tend to use the larger, more efficient banks such as Bank Respublika, UniBank, and Standard Bank. Iranians also prefer using personal checks to clear accounts and wire transfers. Alsanli added that that Iranian investment in Azerbaijan is low compared to other foreign investors but could not offer any figures to support this statement.

Old school, banker not maximizing profit  
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¶5. (C) Aslanli described Bank Melli as a conservative bank whose reliance on old fashion, banking practices has limited its ability to profit from Azerbaijan,s booming economy. While Melli,s growth rate in the past 12 months was estimated at 35 percent, the average bank in Azerbaijan expanded by twice as much in the same time period. Alakbarov said that despite NBA constant urging, Melli is slow to change and has refused to adopt modern, standardized banking practices. Aslanli lamented that Melli has not adopted International Financial Reporting Standards (IFRS), does not have an updated management information system compatible with other banks, and is put off by recommendations that entail

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complex banking tools or long term investment strategies.

¶6. (C) Alakbarov said, unlike other banking institutions, Melli still has a highly centralized operation. All Baku-based Melli decisions, even simple ones, go through Melli authorities in Dubai. As examples, he said it took NBA ten years to convince Melli-Dubai to permit Melli-Baku to offer retail banking services. After three years, NBA is still trying to get Melli-Dubai to approve the relocation of its Baku branch to a more centrally located area of town, and this is after the GOAJ offered a building free-of-charge. Aslanli compared the attitude of Bank Melli to that of the Iranian people who simply appreciate what they have, and are extremely adverse to change.,

GOAJ financial system is not vulnerable  
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¶7. (C) Aslanli said he neither judges Bank Melli nor the long-border with Iran as adding risk to Azerbaijan,s financial system. Alsanli held firmly to this stance even as he recognized that Iran has used Bank Melli to finance its nuclear and ballistic missile program, Iran is designated by the USG as terrorism, and the GOAJ has not passed anti-laundering (AL) and anti-terrorism (AT) legislation. Aslanli and Alakbarov repeated their earlier statements that Melli in Baku is a honest working partner and NBA closely monitors its activities. Alsanli also stressed the GOAJ is making significant progress - in cooperation with the United States-in its banking sector reform program and plans to adopt AL and AT legislation in the coming months. These factors go a long way, Aslanli said, to mitigating any possible vulnerabilities Iran may present to the system.

¶8. (C) COMMENT: Despite NBA officials, assurances that Bank Melli is risk-free and their further supposition that Iran is not a threat to its financial system, Post remains skeptical. There are several factors that contribute to our assessment that Azerbaijan is a high risk jurisdiction for Iranian terrorism and proliferation activity. Azerbaijan shares a long and porous border with this USG-designated state sponsor of terrorism; Iran has increased its financial activities in

Azerbaijan in recent years; a strong body of evidence exists of Bank Melli,s role in financing Iran,s nuclear and ballistic missile program and Iranian Republican Guard Corps and QODs Force activities; and European and other nations, increasing crackdown on Iran,s financial activities in their jurisdictions has left Iran to seek other, more permissive environments. These issues along with GOAJ,s failure to pass and implement robust anti-money laundering (pending) and anti-terrorism legislation or ratify the international terrorism convention or countering-terrorism related UNSCRs (1267, 1373, and successor UNSCRs) leaves Azerbaijan as a potential playground for Iran and others interested in pursuing their illicit activities. Post aims this autumn to ramp up our efforts to press the GOAJ to pursue a more aggressive banking reform program, pass strong anti-money laundering and anti-terrorism legislation, and ratify international terrorism-related conventions/resolutions. We will request Washington participation in these endeavors.

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